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SUBJECT: AFGHANISTAN'S ECONOMIC LINKS TO IRAN

Classified By: CDDEA Ambassador E. Anthony Wayne for  
reasons 1.4 (b) and (d).

11. (C) Summary: Afghanistan relies on Iran for about 15% of its electric power and 6% of its manufactured goods and food imports, according to official statistics. NATO forces also ship goods to Afghanistan via Iran as alternatives to Pakistani border crossings. Most of this merchandise and energy trade flows through Herat, a major city close to Afghanistan's border with Iran. As a result, economic activity in Herat and its surrounding districts relies heavily on these flows. To date, only one Iranian bank operates in Afghanistan, and the Central Bank says it has no intention of granting new banking licenses to Iranian institutions. While this report quotes official trade numbers, such numbers should be regarded as indicative rather and likely greatly underestimates trade because of poor data collection systems in Afghanistan and uncaptured black market activity, which is sizable. End summary.

#### Bilateral Trade

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12. (U) Afghanistan imported 6% of its merchandise imports from Iran between March 2008 and March 2009, according to the Afghan Central Statistics Office, amounting to \$200 million out of a total of \$3.02 billion. Vegetable oil was the largest single import from Iran (\$16 million), followed by diesel fuel (\$15.3 million), sheet metal (\$15.25 million) and construction materials (\$10.9 million). Food comprised 22 percent of Afghanistan's total imports from Iran, closely followed by construction materials making up 21 percent. Approximately \$2 million in Iranian machinery entered Afghanistan during that period, according to official Afghan data. Comment: based on actual revenue collection, we estimate these figures may understate the actual trade volume by as much as 1000 (one thousand) percent. Herat customs officers collected \$132 million in annual revenues during the past year, and assuming a weighted average customs rate of 6 percent, licit Iranian imports to Afghanistan should amount to about \$2 billion annually. End comment.

13. (C) Iranian goods enter Afghanistan via official border crossing points at Islam Qala and Zaranj and via several unofficial crossings. Customs revenues are not collected at the border crossing points, however, as trucks are instructed to continue to Herat and pay tariffs there. In reality, however, Iranian importers often bypass Herat or offload goods just inside the border to avoid customs duties. The Ministry of Finance

estimates only 10 percent of potential customs revenues are collected nation-wide.

14. (U) While the volume of Iranian goods entering Afghanistan far outweighs Afghan exports to that country, transit trade is robust in both directions. According to the State Department Representative in the Herat

Provincial Reconstruction Team (PRT), Afghan marble, cashmere and carpets transit Iran through sea and land border crossing points to Turkey, the Gulf states, China and other markets. Western goods, particularly used vehicles, tires, machinery, construction materials and luxury products transit Iran bound for Afghanistan and Pakistan.

¶5. (C) The Afghan and Iranian governments sponsor multiple initiatives to build bilateral trade. A joint Chamber of Commerce, Industry and Mines opened in Herat in April 2009, following the opening of a similar office in Mashad, Iran, the month before. Headquarters offices are located in Kabul and Tehran and are in contact with one another. The Chamber helps businesspeople resolve issues with both governments. In addition, the Iranian government sponsored a five-day economic exposition in Herat in early October, which included 85 Iranian businesspeople.

#### Energy

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¶6. (U) According to official statistics, Iran exports 15 percent of Afghanistan's total electricity supply. Electricity imports from Iran totaled 155,925 megawatt hours for the first seven months of 2009 and 238,299 megawatt hours in 2008. Herat is the country's second largest electricity import site after the North East Power System line from Afghanistan's neighbors to the north. State's PRT Herat rep notes approximately half of Herat's electricity comes from Iran, and its stable electricity supply helps draw businesses to the city. Transit trade

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¶7. (U) ISAF forces whose governments have diplomatic relations with Iran regularly ship goods in through Iran. Twenty to 30 containers per week enter Afghanistan at Islam Qala, bound mainly for Kandahar. The shipments contain food and water, as well as building materials for ISAF contractors. Containers enter Iran via Turkish border crossings or through Iran's ports.

¶8. (C) An Iranian-built railroad from the border to Herat is half complete. Afghanistan originally agreed to fund the second half of construction but is now asking that Iran fund the second half. The contractor imports equipment and labor from Iran. Afghans whose dwellings were affected had earlier attacked Iranian workers because a \$2 million fund earmarked for Afghan right-of-way compensation on the rail route had not been utilized.

#### Banking

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¶9. (C) Arian Bank, with branches in Kabul and Herat, is the only Iranian bank operating in Afghanistan. Iran frequently lobbies the Afghan Government to approve additional bank licenses for expanded Iranian banking activity in Afghanistan, according to the Central Bank. To date, however, the Central Bank has denied these requests and officials there report the Bank has no intention of granting new banking licenses to Iranian financial institutions.

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